

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Grosse Pointe Shores</u>	County <u>Wayne/Macomb</u>
Audit Date <u>March 31, 2004</u>	Opinion Date <u>May 28, 2004</u>	Date Accountant Report Submitted To State: <u>August 11, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>10 South Main Street, Suite 200</u>	City <u>Mount Clemens</u>	State <u>MI</u>	ZIP <u>48043-7903</u>
Accountant Signature 			

Village of Grosse Pointe Shores, Michigan

Financial Report with Additional Information March 31, 2004

Village of Grosse Pointe Shores, Michigan

Contents

Report Letter	I
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	2-3
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund	4
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Funds	5-6
Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - Proprietary Funds	7
Combined Statement of Cash Flows - Proprietary Funds	8
Statement of Changes in Net Assets - Pension Trust Fund - Employees' Retirement System	9
Notes to Financial Statements	10-24
Report Letter	25
Additional Information	
Required Supplementary Information - General and Public Safety Retirement System:	
Analysis of Funding Progress	26
Schedule of Employer Contributions	27
Special Revenue Funds:	
Combining Balance Sheet	28
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	29
Enterprise Funds:	
Combining Balance Sheet	30
Combining Statement of Revenue, Expenses, and Changes in Retained Earnings	31
Combining Statement of Cash Flows	32
Trust and Agency Funds - Combining Balance Sheet	33
Schedule of General Obligation Bonds	34



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Village Council
Village of Grosse Pointe Shores, Michigan

We have audited the accompanying general purpose financial statements of the Village of Grosse Pointe Shores, Michigan as of March 31, 2004 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Grosse Pointe Shores, Michigan's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Grosse Pointe Shores, Michigan as of March 31, 2004 and the results of its operations and cash flows of its proprietary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I, the Village changed the accounting and reporting for water and sewer activity during the year ended March 31, 2004.

Plante & Moran, PLLC

May 28, 2004

A member of



A worldwide association of independent accounting firms

Village of Grosse Pointe Shores, Michigan

	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise
Assets			
Cash and cash equivalents (Note 2)	\$ 1,174,828	\$ 90,381	\$ 422,803
Investments (Note 2)	-	-	-
Receivables:			
Delinquent taxes	72,314	-	-
Utility billings and other	31,521	-	75,419
Accrued interest and dividends	-	-	-
Due from other funds (Note 3)	68,095	200,000	170,582
Due from other governmental units	38,577	33,900	-
Inventory	8,690	-	1,380
Prepaid expenditures	28,442	-	52,874
Capital assets (Note 5)	-	-	3,180,338
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets	<u>\$1,422,467</u>	<u>\$ 324,281</u>	<u>\$ 3,903,396</u>
Liabilities and Fund Equity			
Liabilities			
Accounts payable	\$ 232,236	\$ -	\$ -
Due to other funds (Note 3)	496,593	31,957	-
Deferred revenue	95,782	-	95,791
Other liabilities	28,796	-	-
Current portion of long-term debt	-	-	125,000
Long-term debt - Net of current portion (Note 6)	-	-	2,165,000
Total liabilities	853,407	31,957	2,385,791
Fund Equity			
Contributed capital (Note 11)	-	-	155,532
Investment in general fixed assets	-	-	-
Retained earnings	-	-	1,362,073
Fund balances:			
Reserved for sanitation expenditures	53,667	-	-
Reserved for employees' retirement system (Note 9)	-	-	-
Reserved for future debt service requirements	9,669	-	-
Reserved for postemployment health care benefits (Note 10)	-	-	-
Reserved for prepaid expenditures	28,442	-	-
Reserved for inventory	8,690	-	-
Reserved for long-term interfund receivable	-	200,000	-
Unreserved - Undesignated	468,592	92,324	-
Total fund equity	<u>569,060</u>	<u>292,324</u>	<u>1,517,605</u>
Total liabilities and fund equity	<u>\$1,422,467</u>	<u>\$ 324,281</u>	<u>\$ 3,903,396</u>

Combined Balance Sheet - All Fund Types and Account Groups
March 31, 2004

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
Trust and Agency	General Fixed Assets	General Long-term Debt	
\$ 1,032,912	\$ -	\$ -	\$ 2,720,924
15,691,842	-	-	15,691,842
-	-	-	72,314
-	-	-	106,940
102,339	-	-	102,339
1,242,780	-	-	1,681,457
-	-	-	72,477
-	-	-	10,070
19,956	-	-	101,272
-	5,691,675	-	8,872,013
-	-	634,877	634,877
\$ 18,089,829	\$ 5,691,675	\$ 634,877	\$ 30,066,525
\$ -	\$ -	\$ -	\$ 232,236
1,152,907	-	-	1,681,457
-	-	-	191,573
143,176	-	-	171,972
-	-	-	125,000
-	-	634,877	2,799,877
1,296,083	-	634,877	5,202,115
-	-	-	155,532
-	5,691,675	-	5,691,675
-	-	-	1,362,073
-	-	-	53,667
15,676,977	-	-	15,676,977
-	-	-	9,669
1,116,769	-	-	1,116,769
-	-	-	28,442
-	-	-	8,690
-	-	-	200,000
-	-	-	560,916
16,793,746	5,691,675	-	24,864,410
\$ 18,089,829	\$ 5,691,675	\$ 634,877	\$ 30,066,525

Village of Grosse Pointe Shores, Michigan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund Year Ended March 31, 2004

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Revenue				
Property taxes	\$ 4,162,590	\$ -	\$ -	\$ 4,162,590
State-shared revenue	254,260	174,243	-	428,503
Federal revenue	6,190	-	-	6,190
Licenses and permits	87,263	-	-	87,263
Fines and forfeitures	239,864	-	-	239,864
Administrative fees	36,138	-	-	36,138
Ambulance fees	37,616	-	-	37,616
Building rent	20,000	-	-	20,000
Interest	7,617	264	58,864	66,745
Other	133,466	10,847	114,983	259,296
Total revenue	4,985,004	185,354	173,847	5,344,205
Expenditures				
Village Council	85,703	-	-	85,703
Judicial	108,985	-	-	108,985
Village manager	379,198	-	-	379,198
Elections	3,116	-	-	3,116
Financial administration	168,343	-	-	168,343
Village clerk	100	-	-	100
Buildings and grounds	405,356	-	-	405,356
Highways and streets	-	173,474	-	173,474
Public safety	2,040,204	10,847	-	2,051,051
Public works	268,477	-	-	268,477
Sanitation	339,671	-	-	339,671
Parks and recreation	464,831	-	-	464,831
Fringe benefits	342,046	-	103,283	445,329
Insurance	57,002	-	-	57,002
Total expenditures	4,663,032	184,321	103,283	4,950,636
Excess of Revenue Over Expenditures	321,972	1,033	70,564	393,569
Other Financing Sources (Uses)				
Operating transfers in	25,000	22,950	-	47,950
Operating transfers out	(244,445)	(15,000)	-	(259,445)
Total other financing sources (uses)	(219,445)	7,950	-	(211,495)
Excess of Revenue and Other Financing Sources Over Expenditures and Other Uses	102,527	8,983	70,564	182,074
Fund Balances - April 1, 2003 (as restated)	466,533	283,341	1,046,205	1,796,079
Fund Balances - March 31, 2004	<u>\$ 569,060</u>	<u>\$ 292,324</u>	<u>\$ 1,116,769</u>	<u>\$ 1,978,153</u>

See Notes to Financial Statements.

Village of Grosse Pointe Shores, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 4,233,813	\$ 4,162,590	\$ (71,223)
State-shared revenue	269,000	254,260	(14,740)
Federal revenue	-	6,190	6,190
Licenses and permits	66,000	87,263	21,263
Fines and forfeitures	210,000	239,864	29,864
Administrative fees	-	36,138	36,138
Ambulance fees	35,000	37,616	2,616
Building rent	20,000	20,000	-
Interest	15,000	7,617	(7,383)
Miscellaneous	130,000	133,466	3,466
Operating transfers in	95,000	94,936	(64)
Total revenue	5,073,813	5,079,940	6,127
Expenditures			
Village Council	97,500	85,703	11,797
Judicial	108,901	108,985	(84)
Village manager	418,199	379,198	39,001
Elections	4,100	3,116	984
Financial administration	398,905	404,838	(5,933)
Village clerk	100	100	-
Buildings and grounds	419,950	405,356	14,594
Highways and streets	-	-	-
Public safety	2,102,798	2,040,204	62,594
Public works	343,336	346,363	(3,027)
Sanitation	407,532	339,671	67,861
Parks and recreation	470,490	464,831	5,659
Fringe benefits	342,002	342,046	(44)
Insurance	70,000	57,002	12,998
Operating transfers out	-	-	-
Total expenditures	5,183,813	4,977,413	206,400
Excess of Revenue Over (Under) Expenditures	(110,000)	102,527	212,527
Fund Balances - April 1, 2003 (as restated)	466,533	466,533	-
Fund Balances - March 31, 2004	<u>\$ 356,533</u>	<u>\$ 569,060</u>	<u>\$ 212,527</u>

**Combined Statement of Revenue, Expenditures, and Changes in
Fund Balances - Budget and Actual - General and Special Revenue Funds
Year Ended March 31, 2004**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
166,000	174,243	8,243
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
1,500	264	(1,236)
8,000	10,847	2,847
-	22,950	22,950
175,500	208,304	32,804
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
167,500	173,474	(5,974)
8,000	10,847	(2,847)
-	-	-
-	-	-
-	-	-
-	-	-
-	15,000	(15,000)
175,500	199,321	(23,821)
-	8,983	8,983
283,341	283,341	-
\$ 283,341	\$ 292,324	\$ 8,983

Village of Grosse Pointe Shores, Michigan

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings Proprietary Funds Year Ended March 31, 2004

Operating Revenue

Customer billings	\$ 1,140,318
Charges for services	<u>173,439</u>

Total operating revenue 1,313,757

Operating Expenses

Water supply and sewage disposal	739,325
Repairs and maintenance	163,154
General and administrative	227,444
Depreciation	<u>107,399</u>

Total operating expenses 1,237,322

Operating Income 76,435

Nonoperating Revenue (Expense)

Interest income	5,397
Interest expense	<u>(76,495)</u>

Total nonoperating expense (71,098)

Income - Before operating transfers 5,337

Operating Transfers In 236,495

Operating Transfers Out (25,000)

Net Income 216,832

Add Depreciation on Donated Fixed Assets 9,213

Increase in Retained Earnings 226,045

Retained Earnings - April 1, 2003 (as restated) 1,136,028

Retained Earnings - March 31, 2004 \$ 1,362,073

Village of Grosse Pointe Shores, Michigan

Combined Statement of Cash Flows - Proprietary Funds Year Ended March 31, 2004

Cash Flows from Operating Activities

Operating income	\$ 76,435
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	107,399
Changes in assets and liabilities:	
Receivables	81,227
Due from other funds	(84,261)
Other assets	(52,874)
Accounts payable	(67,525)
Due to other funds	(89,261)
Deferred revenue	15,869
Net cash used in operating activities	(12,991)

Cash Flows from Noncapital Financing Activities

Operating transfers out to other funds	(25,000)
Operating transfers in from other funds	236,495
Net cash provided by noncapital financing activities	211,495

Cash Flows from Investing Activities

Interest received on investments	5,397
Principal and interest payments on long-term debt	(236,495)
Net cash used in investing activities	(231,098)

Net Decrease in Cash and Cash Equivalents (32,594)

Cash and Cash Equivalents - April 1, 2003 455,397

Cash and Cash Equivalents - March 31, 2004 \$ 422,803

There were no noncash capital, financing, or investing activities during the year.

Village of Grosse Pointe Shores, Michigan

Statement of Changes in Net Assets Pension Trust Fund - Employees' Retirement System Year Ended March 31, 2004

Additions

Investment income:

Interest, dividends, and net realized income on investments	\$ 614,260
Net appreciation in fair value of investments	2,026,119
Less investment expenses	<u>(129,486)</u>

Net investment income 2,510,893

Contributions:

Employer	100,000
Employee	<u>128,484</u>

Total contributions 228,484

Total additions 2,739,377

Deductions

Pension benefit payments	646,941
Health care benefit payments	127,132
Refund of contributions	<u>14,881</u>

Total deductions 788,954

Net Increase in Net Assets 1,950,423

Net Assets - April 1, 2003 13,726,554

Net Assets - March 31, 2004 \$ 15,676,977

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Grosse Pointe Shores, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The individual component unit discussed below is included in the Village's reporting entity because of the significance of its operational and financial relationship with the Village. The Village employees' retirement system has been blended into the Village's financial statements. The retirement system is governed by a five-member pension board that includes the Village Council president and two individuals chosen by the Village Council. The retirement system is reported as if it were part of the primary government because of the fiduciary responsibility that the Village retains relative to the operations of the retirement system.

Fund Accounting

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the Village that are not accounted for in another fund. General Fund activities are financed by revenue from property taxes, state-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Village in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Employees' Retirement System Pension Trust Fund, the Retiree Health Care Expendable Trust Fund, and an Agency Fund. The retirement system is accounted for in the same manner as proprietary funds; the Retiree Health Care Expendable Trust Fund is accounted for in the same manner as governmental funds; and the Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Basis of Accounting

The accrual basis of accounting is used by the proprietary fund and the retirement system. All governmental funds and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. These taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- c. The noncurrent portion of accumulated sick pay liabilities is reflected in the General Long-term Debt Account Group.

The government reports deferred revenue on its combined balance sheet. In the governmental funds, deferred revenue arises when a potential revenue is not both measurable and available, such as probation payments and property taxes received after May 31. Deferred revenue in the Enterprise Fund arises when resources are received by the government before the revenue recognition criteria has been met, as when boat well rental fees are received prior to the incurrence of the related expenditures. In subsequent periods, when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs, gutters, streets, and sidewalks. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary fund on a straight-line basis.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments are reported at fair value, based on quoted market prices.

Inventories - Inventories in the General Fund and Water and Sewer Fund are valued at cost, on a first-in, first-out basis, which approximates market value. Fund balance in the General Fund has been reserved in an equal amount.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting and Reporting Change

Effective April 1, 2003, the Village changed its accounting procedures to be in compliance with accounting principals generally accepted in the United States of America in regard to the recording of the water and sewer activity separate from the activity of the General Fund. As a result of this change, the Water and Sewer Fund includes \$11,475 of retained earnings previously recorded as fund balance in the General Fund, capital assets previously recorded in the General Fixed Assets Account Group with a gross cost of \$4,800,359 and a net book value of \$3,180,507, and \$2,450,000 of bond obligations previously recorded in the General Long-term Debt Account Group. The capital assets were previously recorded in the General Fixed Assets Account Group with a cost of \$5,496,526. The amount reported in the Water and Sewer Fund was adjusted to more accurately reflect the cost of the assets in service at April 1, 2003.

Other accounting policies are disclosed in other notes to the financial statements.

Note 2 - Deposits and Investments

The Village's deposits and investments at March 31, 2004 are included on the combined balance sheet under the following classifications:

Cash and cash equivalents	\$ 2,720,924
Investments	<u>15,691,842</u>
Total	<u>\$ 18,412,766</u>

The above amounts are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 538,863
Investments in securities, mutual funds, and similar vehicles	17,873,253
Petty cash or cash on hand	<u>650</u>
Total	<u>\$ 18,412,766</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 2 - Deposits and Investments (Continued)

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$593,026. Of that amount, approximately \$209,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Village is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances, and mutual funds and investment pools that are composed of authorized investment vehicles.

The General and Public Safety Retirement System and Retiree Health Care Expendable Trust Fund are authorized by Michigan Public Act 485 of 1996 to also invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village's investments are categorized below to give an indication of the level of risk assumed by the Village at March 31, 2004. Risk Category I includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Village or its agent

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 2 - Deposits and Investments (Continued)

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Village's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Village's name.

	Category			Carrying Amount
	1	2	3	
U.S. government and U.S. government agency securities	\$ -	\$ -	\$ 1,819,913	\$ 1,819,913
Common stock	-	-	9,886,972	9,886,972
Corporate bonds	-	-	3,984,957	3,984,957
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,691,842</u>	15,691,842
Bank investment pools				1,158,864
Mutual funds				<u>1,022,547</u>
Total investments				<u>\$ 17,873,253</u>

The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares. Management believes that the investments in the funds comply with the investment authority noted above.

Included in the investments of the General and Public Safety Retirement System and Retiree Health Care Expendable Trust Fund are approximately \$22,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 3 - Interfund Receivables

The following are the interfund receivables at March 31, 2004:

General Fund:

Due from Local Street Fund	\$ 21,400
Due from Major Street Fund	10,557
Due from retirement system	<u>36,138</u>

Total General Fund 68,095

Special Revenue Funds - Budget Stabilization Fund -

Due from General Fund	200,000
-----------------------	---------

Enterprise Funds:

Marina Fund - Due from General Fund	148,277
Water and Sewer Fund - Due from General Fund	<u>22,305</u>

Total Enterprise Funds 170,582

Trust and Agency Funds:

Agency Fund - Due from General Fund	126,011
Retiree Health Care Fund - Due from retirement system	<u>1,116,769</u>

Total Trust and Agency Funds 1,242,780

Total interfund receivables \$ 1,681,457

Note 4 - Shared Expenses and Elected Officials

The Village received the following payments from the Township of Grosse Pointe for shared expenses for the year ended March 31, 2004:

Rent	\$ 20,000
Insurance	20,000
Administrative services	60,000

A member of the Village Council is also a member of the Board of Trustees for the Township of Grosse Pointe.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance April 1, 2003 (as restated)	Additions	Deletions	Balance March 31, 2004
Municipal buildings and sites	\$ 1,879,873	\$ -	\$ -	\$ 1,879,873
Osius Park	1,594,647	-	-	1,594,647
Street lighting system	197,964	-	-	197,964
Vehicles and equipment	2,002,735	75,886	59,430	2,019,191
Total	<u>\$ 5,675,219</u>	<u>\$ 75,886</u>	<u>\$ 59,430</u>	<u>\$ 5,691,675</u>

Portions of the capital asset additions are recorded as expenditures of the departments they benefit rather than classified as capital outlay.

A summary of proprietary fund fixed assets at March 31, 2004 follows:

	Amount	Depreciable Life - Years
Water and sewer lines and mains	\$ 4,800,359	50
Marina	316,358	30
Boat wells	276,404	30
Electrical system	<u>24,943</u>	30
Total proprietary fund fixed assets	5,418,064	
Less accumulated depreciation	<u>(2,237,726)</u>	
Net proprietary fund fixed assets	<u>\$ 3,180,338</u>	

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Village as of March 31, 2004:

			<u>Principal Outstanding</u>	
	Interest Rate (Percent)	Maturing Through	Enterprise Funds	Long-term Debt Account Group
General obligation bonds - Unlimited tax bonds	1.15-3.80	2016	\$ 2,290,000	\$ -
Accumulated sick pay			-	634,877
Total long-term debt			<u>\$ 2,290,000</u>	<u>\$ 634,877</u>

The accumulated sick pay represents the estimated liability to be paid governmental fund-type employees under the Village's sick pay policy, net of the portion that is estimated to be payable currently, which has been recorded as a liability in the applicable governmental fund. Under the Village's policy, employees earn sick time based on length of service with the Village.

Changes in Long-term Debt

The following is a summary of long-term debt obligation transactions of the Village for the year ended March 31, 2004:

	Enterprise Fund Debt	Other Debt	Total
Balance - April 1, 2003	\$ 2,450,000	\$ 619,028	\$3,069,028
Bonds retired	(160,000)	-	(160,000)
Net increase in obligation for accumulated sick pay	-	15,849	15,849
Balance - March 31, 2004	<u>\$ 2,290,000</u>	<u>\$ 634,877</u>	<u>\$2,924,877</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2004 (excluding accumulated sick pay), including both principal and interest, are as follows:

Years Ending March 31	Amount
2005	\$ 159,345
2006	217,251
2007	234,251
2008	250,851
2009	241,101
Remaining years	<u>1,690,939</u>
Total	<u>\$ 2,793,738</u>

Interest

Total interest expense for the Village for the year approximated \$76,000.

Defeased Debt

During the prior year, the Village defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At March 31, 2004, \$1,575,000 of bonds outstanding are considered defeased.

Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for employee medical claims, participates in the Michigan Municipal Risk Management Authority state pool program for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 7 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program also operates as a common risk-sharing management program. The Village is a member of the state pool. A portion of the excess insurance is underwritten by the Michigan Municipal Risk Management Authority itself.

Note 8 - Budget Information

The annual budget is prepared by the Village superintendent and adopted by the Village council, and subsequent amendments are approved by the Village council. Unexpended appropriations lapse at year end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at March 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.

The statement comparing actual to budgeted revenue and expenditures is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement of the General Fund to the operating statement:

	<u>Revenue</u>	<u>Expenditures</u>
Budget statement amount	\$ 5,079,940	\$ 4,977,413
Major and Local Street Funds expenditure reimbursements	(69,936)	(69,936)
Operating transfers in	(25,000)	-
Operating transfers out	-	(244,445)
Total operating statement amount	<u>\$ 4,985,004</u>	<u>\$ 4,663,032</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 8 - Budget Information (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of the actual results of operations to the General Fund budget as adopted by the Village Council is included in the general purpose financial statements. A comparison of the actual results of operations to the Special Revenue Funds budgets as adopted by the Village Council is available at the Village's office for inspection.

Note 9 - Defined Benefit Pension Plan

Plan Description

The Village contributes to the General and Public Safety Retirement System, which is the administrator of a single-employer public employees' retirement system that covers essentially all general and public safety employees of the Village. The plan does not issue a separate financial report.

The system provides retirement, death, health care, and disability benefits to plan members and their beneficiaries. At March 31, 2004, membership consisted of 30 retirees, beneficiaries, and alternate payees currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 41 current active employees.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by the Village charter. All full-time general and public safety employees are eligible to participate in the system. General participants in the system are required to contribute 3 percent of the first \$4,200 of annual salary plus 5 percent of annual salary in excess of \$4,200 to the system. Public safety participants are required to contribute 6 percent of their annual salary to the system. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended March 31, 2004, the Village's annual pension cost of \$100,000 for the plan was equal to the Village's actual contribution and less than the required contribution of \$101,976. The annual required contribution was determined as part of an actuarial valuation at March 31, 2003, using the individual entry-age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return and (b) projected salary increases of 5.7 percent to 9.3 percent per year. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

Reserves

As of March 31, 2004, the plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 1,679,430
Reserve for retired benefit payments	7,360,193

Three-year Trend Information

	2004	2003	2002
Annual pension cost (APC)	\$ 100,000	\$ -	\$ -
Percentage of APC contributed	98.1%	100.0%	100.0%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 29 retirees are eligible. The Village includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Village purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$230,415. In the current year, \$127,132 of these benefits were paid from the Retirement System Fund; the remaining \$103,283 was paid from the Retiree Health Care Expendable Trust Fund.

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 10 - Postemployment Benefits (Continued)

In the current year, the plan's reserves have been funded as follows:

Reserve for postemployment health care benefits	\$1,116,769
---	-------------

Note 11 - Contributed Capital

The following is an analysis of contributed capital by source:

	Balance April 1, 2003	Current Year Deductions	Balance March 31, 2004
Capital contributed from all sources prior to April 1, 1985	\$ 126,358	\$ -	\$ 126,358
Capital contributed since April 1, 1985 - Boat well improvements	276,404	-	276,404
Capital reductions since April 1, 1985:			
Bond principal payment	(100,000)	-	(100,000)
Depreciation on boat wells	(138,017)	(9,213)	(147,230)
Total	<u>\$ 164,745</u>	<u>\$ (9,213)</u>	<u>\$ 155,532</u>

Note 12 - State Construction Code Act

The Village tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999 (the "Act"), the Village is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the Village adopted this accounting treatment effective January 1, 2000. For the year ended March 31, 2004, building department revenue and expenditures totaled approximately \$86,000 and \$81,000, respectively, which resulted in an excess of revenue over expenditures of approximately \$5,000 for the year. A summary of the activity is presented below:

Accumulated shortfall - April 1, 2003	\$ (40,858)
2003-2004 building department activity:	
Current year revenue	86,184
Current year expenditures	<u>80,807</u>
Excess of revenue over expenditures	<u>5,377</u>
Accumulated shortfall - March 31, 2004	<u>\$ (35,481)</u>

Village of Grosse Pointe Shores, Michigan

Notes to Financial Statements March 31, 2004

Note 13 - Joint Venture

The Village is a member of the Grosse Pointes-Clinton Refuse Disposal Authority joint venture (the "Authority"), which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Harper Woods, Mount Clemens, Grosse Pointe Woods, and the Township of Clinton.

The Village is unaware of any circumstances, including potential environmental remediation, that would cause an additional burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 14 - Upcoming Reporting Change

For the year beginning April 1, 2004, the Village plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Enterprise Funds will no longer report capital contributions as a direct increase to equity. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

To the Village Council
Village of Grosse Pointe Shores, Michigan

We have audited the general purpose financial statements of the Village of Grosse Pointe Shores, Michigan for the year ended March 31, 2004. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Village of Grosse Pointe Shores, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

May 28, 2004

Village of Grosse Pointe Shores, Michigan

Required Supplementary Information General and Public Safety Retirement System Analysis of Funding Progress

Actuarial Valuation Date March 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Overfunded Actuarial Accrued Liability (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Actuarial Accrued Liability as a Percentage of Covered Payroll
1999	\$ 15,060,632	\$ 10,582,824	\$ 4,477,808	142.3	\$ 1,842,882	243
2000	16,633,164	11,705,010	4,928,154	142.1	2,171,026	227
2001	17,378,211	12,564,575	4,813,636	138.3	2,185,268	220
2002	17,453,207	13,447,907	4,005,300	129.8	2,240,075	179
2003	16,398,658	13,997,185	2,401,473	117.2	2,328,221	103
2004	15,987,977	14,685,220	1,302,757	108.9	2,271,915	57

Village of Grosse Pointe Shores, Michigan

Required Supplementary Information General and Public Safety Retirement System Schedule of Employer Contributions

Years Ended March 31	Annual Required Contribution	Percentage Contributed
1999	\$ -	100.0
2000	-	100.0
2001	-	100.0
2002	-	100.0
2003	-	100.0
2004	101,976	98.1

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of March 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.7%-9.3%
* Includes inflation at the rate of	5.5%

Village of Grosse Pointe Shores, Michigan

Special Revenue Funds Combining Balance Sheet March 31, 2004

	Major Street	Local Street	Budget Stabilization	911 Service	Total
Assets					
Cash and cash equivalents	\$ 69,560	\$ 20,821	\$ -	\$ -	\$ 90,381
Due from General Fund	-	-	200,000	-	200,000
Due from other governmental units	23,452	10,448	-	-	33,900
Total assets	<u>\$ 93,012</u>	<u>\$ 31,269</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 324,281</u>
Liabilities and Fund Balances					
Liabilities - Due to General Fund	\$ 10,558	\$ 21,399	\$ -	\$ -	\$ 31,957
Fund Balances					
Reserved for long-term interfund receivable	-	-	200,000	-	200,000
Unreserved - Undesignated	82,454	9,870	-	-	92,324
Total fund balances	82,454	9,870	200,000	-	292,324
Total liabilities and fund balances	<u>\$ 93,012</u>	<u>\$ 31,269</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 324,281</u>

Village of Grosse Pointe Shores, Michigan

Special Revenue Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2004

	Major Street	Local Street	Budget Stabilization	911 Service	Total
Revenue					
State-shared revenue	\$ 120,594	\$ 53,649	\$ -	\$ -	\$ 174,243
Interest	232	32	-	-	264
Other	-	-	-	10,847	10,847
Total revenue	120,826	53,681	-	10,847	185,354
Expenditures					
Street maintenance	62,260	51,436	-	-	113,696
Construction	1,505	15,770	-	-	17,275
Winter maintenance	9,572	10,959	-	-	20,531
Administrative	9,673	4,414	-	-	14,087
Traffic services	4,583	3,302	-	-	7,885
Public safety	-	-	-	10,847	10,847
Total expenditures	87,593	85,881	-	10,847	184,321
Excess of Revenue Over (Under) Expenditures	33,233	(32,200)	-	-	1,033
Other Financing Sources (Uses)					
Operating transfers in	-	22,950	-	-	22,950
Operating transfers out	(15,000)	-	-	-	(15,000)
Total other financing sources (uses)	(15,000)	22,950	-	-	7,950
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	18,233	(9,250)	-	-	8,983
Fund Balances - April 1, 2003	64,221	19,120	200,000	-	283,341
Fund Balances - March 31, 2004	<u>\$ 82,454</u>	<u>\$ 9,870</u>	<u>\$ 200,000</u>	<u>\$ -</u>	<u>\$ 292,324</u>

Village of Grosse Pointe Shores, Michigan

Enterprise Funds Combining Balance Sheet March 31, 2004

	Marina	Water and Sewer	Total
Assets			
Cash and cash equivalents	\$ 422,803	\$ -	\$ 422,803
Customer receivables	-	75,419	75,419
Due from other funds	148,277	22,305	170,582
Inventory	-	1,380	1,380
Prepaid expenditures	-	52,874	52,874
Capital assets - Net of accumulated depreciation	86,641	3,093,697	3,180,338
Total assets	<u>\$ 657,721</u>	<u>\$ 3,245,675</u>	<u>\$ 3,903,396</u>
Liabilities and Fund Equity			
Liabilities			
Deferred revenue	\$ 95,791	\$ -	\$ 95,791
Current portion of long-term debt	-	125,000	125,000
Long-term debt - Net of current portion	-	2,165,000	2,165,000
Total liabilities	95,791	2,290,000	2,385,791
Fund Equity			
Contributed capital	155,532	-	155,532
Retained earnings	406,398	955,675	1,362,073
Total fund equity	561,930	955,675	1,517,605
Total liabilities and fund equity	<u>\$ 657,721</u>	<u>\$ 3,245,675</u>	<u>\$ 3,903,396</u>

Village of Grosse Pointe Shores, Michigan

Enterprise Funds Combining Statement of Revenue, Expenses, and Changes in Retained Earnings Year Ended March 31, 2004

	Marina	Water and Sewer	Total
Operating Revenue			
Customer billings	\$ -	\$ 1,140,318	\$ 1,140,318
Charges for services	<u>173,439</u>	<u>-</u>	<u>173,439</u>
Total operating revenue	173,439	1,140,318	1,313,757
Operating Expenses			
Water supply and sewage disposal	-	739,325	739,325
Repairs and maintenance	61,548	101,606	163,154
General and administrative	68,560	158,884	227,444
Depreciation	<u>20,589</u>	<u>86,810</u>	<u>107,399</u>
Total operating expenses	<u>150,697</u>	<u>1,086,625</u>	<u>1,237,322</u>
Operating Income	22,742	53,693	76,435
Nonoperating Revenue (Expense)			
Interest income	5,397	-	5,397
Interest expense	<u>-</u>	<u>(76,495)</u>	<u>(76,495)</u>
Total nonoperating revenue (expense)	<u>5,397</u>	<u>(76,495)</u>	<u>(71,098)</u>
Income (Loss) - Before operating transfers	28,139	(22,802)	5,337
Operating Transfers In	-	236,495	236,495
Operating Transfers Out	<u>(25,000)</u>	<u>-</u>	<u>(25,000)</u>
Net Income	3,139	213,693	216,832
Add Depreciation on Donated Fixed Assets	<u>9,213</u>	<u>-</u>	<u>9,213</u>
Increase in Retained Earnings	12,352	213,693	226,045
Retained Earnings - April 1, 2003 (as restated)	<u>394,046</u>	<u>741,982</u>	<u>1,136,028</u>
Retained Earnings - March 31, 2004	<u><u>\$ 406,398</u></u>	<u><u>\$ 955,675</u></u>	<u><u>\$ 1,362,073</u></u>

Village of Grosse Pointe Shores, Michigan

Enterprise Funds Combining Statement of Cash Flows Year Ended March 31, 2004

	Marina	Water and Sewer	Total
Cash Flows from Operating Activities			
Operating income	\$ 22,742	\$ 53,693	\$ 76,435
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	20,589	86,810	107,399
Changes in assets and liabilities:			
Receivables	-	81,227	81,227
Due from other funds	(61,956)	(22,305)	(84,261)
Other assets	-	(52,874)	(52,874)
Accounts payable	(140)	(67,385)	(67,525)
Due to other funds	-	(89,261)	(89,261)
Deferred revenue	15,869	-	15,869
Net cash used in operating activities	(2,896)	(10,095)	(12,991)
Cash Flows from Noncapital Financing Activities			
Operating transfers out to other funds	(25,000)	-	(25,000)
Operating transfers in from other funds	-	236,495	236,495
Net cash provided by (used in) noncapital financing activities	(25,000)	236,495	211,495
Cash Flows from Investing Activities			
Interest received on investments	5,397	-	5,397
Principal and interest payments on long-term debt	-	(236,495)	(236,495)
Net cash provided by (used in) investing activities	5,397	(236,495)	(231,098)
Net Decrease in Cash and Cash Equivalents	(22,499)	(10,095)	(32,594)
Cash and Cash Equivalents - April 1, 2003	445,302	10,095	455,397
Cash and Cash Equivalents - March 31, 2004	<u>\$ 422,803</u>	<u>\$ -</u>	<u>\$ 422,803</u>

Village of Grosse Pointe Shores, Michigan

Trust and Agency Funds Combining Balance Sheet March 31, 2004

	Agency Fund	Pension Trust Fund	Expendable Trust Fund	
	Bonds	Retirement System	Retiree Health Care	Total
Assets				
Cash and cash equivalents	\$ 4,317	\$ 1,028,595	\$ -	\$ 1,032,912
Investments	-	15,691,842	-	15,691,842
Accrued interest and dividends	-	102,339	-	102,339
Due from other funds	126,011	-	1,116,769	1,242,780
Prepaid expenditures	-	19,956	-	19,956
Total assets	<u>\$ 130,328</u>	<u>\$ 16,842,732</u>	<u>\$ 1,116,769</u>	<u>\$ 18,089,829</u>
Liabilities and Fund Balances				
Liabilities				
Due to other funds	\$ -	\$ 1,152,907	\$ -	\$ 1,152,907
Other liabilities	130,328	12,848	-	143,176
Total liabilities	130,328	1,165,755	-	1,296,083
Fund Balances				
Reserved for employees' retirement system	-	15,676,977	-	15,676,977
Reserved for employees' post- employment health care benefits	-	-	1,116,769	1,116,769
Total liabilities and fund balances	<u>\$ 130,328</u>	<u>\$ 16,842,732</u>	<u>\$ 1,116,769</u>	<u>\$ 18,089,829</u>

Village of Grosse Pointe Shores, Michigan

Schedule of General Obligation Bonds March 31, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	March 31	
	(Percent)		Maturity	2004	2003
General Obligation Bonds -					
Unlimited Tax Bonds, Series 2003					
Date of issue - February 27, 2003					
Amount of issue - \$2,450,000					
	1.150	10/01/03	\$ 160,000	\$ -	\$ 160,000
	1.150	10/01/04	125,000	125,000	125,000
	2.000	10/01/05	150,000	150,000	150,000
	2.000	10/01/06	170,000	170,000	170,000
	2.500	10/01/07	190,000	190,000	190,000
	2.600	10/01/08	185,000	185,000	185,000
	3.000	10/01/09	180,000	180,000	180,000
	3.200	10/01/10	200,000	200,000	200,000
	3.400	10/01/11	195,000	195,000	195,000
	3.550	10/01/12	215,000	215,000	215,000
	3.625	10/01/13	215,000	215,000	215,000
	3.700	10/01/14	235,000	235,000	235,000
	3.800	10/01/15	230,000	230,000	230,000
Total general obligation bonds				\$ 2,290,000	\$ 2,450,000

May 28, 2004

To the Village Council
Village of Grosse Pointe Shores
795 Lake Shore Road
Grosse Pointe Shores, MI 48236

Dear Village Council Members:

We recently completed our audit of the financial statements of the Village of Grosse Pointe Shores for the year ended March 31, 2004. In addition to the audit report, we offer the following comments and recommendations for your review and consideration.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the Village's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with certain members of the Village Council, management and other employees throughout the municipality; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

However, as part of the Village's process of continuous improvement, we noted the following internal control matters that we would like to bring to your attention for consideration:

- As a matter of convenience and necessity, the Village makes use of electronic funds transfers (EFT's) in order to effect transactions with banks and other entities in an efficient manner. However, along with convenience, these transactions can put the Village at risk as compared with more traditional methods of payment because of the amount that can be transferred at one time and the speed at which the transactions can be executed. We recommend that the Village examine the controls in place over EFT's and develop a formal policy to be approved by the Council, in accordance with State law. The policy should include controls for the prevention of misuse, such as requiring the approval of two individuals on transactions over a certain dollar limit, and the detection of misuse, such as maintaining adequate documentation for each transfer request and the reviewing wire transfer activity by the Council on a monthly basis. We would be pleased to assist the Village in the development of such a policy.

- The Village currently maintains a checking account that is described as a "Petty Cash checking account." This account is being used in situations when payment is required in an urgent manner. Checks written out of this account are not subjected to the same Council approval process as other Village disbursements and only require the signature of one individual. While there may be situations where immediate payment is necessary, we suggest that the Village credit cards be utilized in these situations as much as possible since there is a formal policy and controls in place regarding their use. Based on discussions with management, it is our understanding that the Petty Cash checking account is in the process of being closed.
- Current banking arrangements designate the Finance Officer of the Village as one of the authorized check signers on the payroll bank account. The Finance Officer does not sign the checks in practice, however since the Finance Officer also has the ability to add new employees to the payroll system and print payroll checks, the ability to sign the payroll checks creates the potential for an internal control weakness. We recommend that the Finance Officer be removed as an authorized check signer on this account to remove that potential area of weakness.

GASB 34 - NEW FINANCIAL REPORTING MODEL

As you are aware, the Governmental Accounting Standards Board finalized its new financial statement reporting model which calls for implementation by the Village for the fiscal year beginning April 1, 2004. This model will bring significant changes to the reporting structure of the Village's financial statements.

As a reminder, one requirement of the new model is that governmental fixed assets, previously maintained in the General Fixed Asset Account Group at their historical cost, will need to be depreciated in the same manner as the assets recorded in the Proprietary Funds. The Village's current fixed asset records do not contain adequate detail to calculate depreciation on the governmental fixed assets. For this reason, and in the interest of improving physical control over assets and anticipating future needs for replacement, we recommend that the Village perform an inventory of fixed assets. This process can be completed by internal personnel or with the assistance of an appraisal company with expertise in municipal asset appraisals. We would be happy to provide contact information for companies with such expertise. In the coming months, we ask that you please call on us with any questions or concerns you have regarding any aspect of this implementation.

ACCOUNTING AND ADMINISTRATIVE MATTERS

- During our testing of the Village's system for tracking employee compensated absences, we noted one instance where an employee utilized a sick day but it was not deducted from their accumulated sick time bank. In order to ensure that the employee's balance and the Village's liability for compensated absences are calculated accurately, it is essential that the procedures and controls established for compensated absences are consistently applied.

- The Village's current purchasing policies do not specify a dollar threshold at which purchase orders must be utilized for the acquisition of goods and services. We recommend that the purchasing policy be revised with more specific requirements so that the potential for future abuse can be avoided.
- Through our review of the minutes of the Council's meetings, we noted several instances in which the minutes had not been signed by the necessary officials. In the interest of maintaining complete and accurate records of the Council's discussions and decisions, we encourage that the minutes be brought up to date with the proper approvals.
- During our testing of property taxes, we requested to examine the assessor's warrants of the taxable property value for the Village, which are filed with Macomb and Wayne Counties. At the time of our testing, copies of these documents were not maintained in the Village's files and had to be obtained from the respective counties. We recommend that copies of these documents, and all documents with similar importance, be maintained in the Village offices.

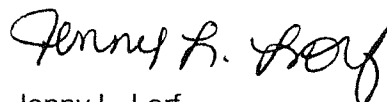
We would like to thank you for the opportunity to serve the Village of Grosse Pointe Shores. We would also like to express our appreciation for the courtesy and cooperation extended to our staff by Rhonda and Mike during the audit. If you have any questions regarding any of the information noted above or presented in the financial statements, please feel free to call us at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Bruce M. Berend



Jenny L. Lorf